

Financial Department

Conducted by WILLIAM LEAVITT STODDARD

The Financial Department is prepared to furnish information regarding standard investment securities, but cannot undertake to *advise* the purchase of any specific security. It will give to inquirers facts of record or information resulting from expert investigation, and a nominal charge of one dollar

per inquiry will be made for this special service. The Financial Editor regrets that he cannot undertake the discussion of more than five issues of stocks or bonds in reply to any one inquirer. All letters should be addressed to THE OUTLOOK FINANCIAL DEPARTMENT, 120 East 16th Street, New York, N. Y.

Facts, Figures, and Judgments

If a person could ascertain all the existing facts about, for example, a corporation, and could, in addition, have at his command knowledge of all future facts for a period of three or four years, the elements of chance and risk would be eliminated from investing. As things are, however, such

an assemblage of data is impossible. The nearest approach to it is to collect existing information and, on the basis of this, use judgment to project or plot the future.

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to do when we try to decide to buy, sell, or hold a security. We study statistics and trade reports, we peruse tables of figures, we ponder averages, we read, investigate, inquire. The sum total of it all is that, in the last analysis, our verdict is based on judgment, which means that we discard some facts in favor of others and rely, finally, on our own or some one else's opinion.

Several months ago in these columns we made some adverse comments on the subject of averages. Since making and publishing those remarks nothing has occurred to change our general view that, useful as averages are in giving an average picture, they are not of any great practical use in determining whether to buy or not. On the basis of averages, thousands of people last year concluded that the stock market was too high and would crash. Subsequent events have shown that, while some stocks which were too high did crash, the market as a market had no such vital element of weakness in it as the observers supposed. The averages misled.

Recently another and very interesting slant on averages has been brought to our attention. Strange as it may seem, it comes from a biological chemist. What he offers may be phrased as follows:

"Statistics, and particularly statistics based on averages, do not avail in estimating stock market possibilities, because the element of judgment enters into the transaction. The problem is a biological rather than a mathematical one. In biology no one thing may be said to be a cause. You must have a set of conditions to produce a result, and each condition must be favorable.

"To make a tree, for example, you have to have a seed, the right kind of soil, water, neither too much nor too little, and the right kind of climate. No one of these conditions is the cause of the tree—not even the seed, for the seed alone is worthless without proper soil, plus water, plus proper climate.

"Now apply this," continued the biological chemist, "to the problem of security prices and prospects. Here, as in

the case of the tree, there is a set of conditions which must be of a certain character in order to bring about certain results. It is obvious that no arithmetical calculations based on the *past* are of more than academic value. The reason is that new conditions are constantly being created which are not, and cannot be, reflected in figures of past performance."

We will confess that this theory is novel to us, but it "listens well," and we would like our scientific readers to give it consideration. Isn't there a great deal in it?

We are always impressed by the fact that the most important thing about a corporation is almost impossible to weigh, namely, *earning power*. If there is earning power, the future is assured as long as that power lasts. If earning power fails, the best-secured bonds, the highest-rated stock, the most beautiful balance-sheet, becomes worthless or very nearly so.

Now, in the last analysis, earning power is a product of conditions which can be examined and understood, but which are not necessarily reflected in past stock market prices or even in financial statements. Earning power is a result of many factors—management, markets, public favor, national, and even international trade conditions.

It is at once a virtue and a vice of the human mind to endeavor to reduce everything to formulæ. Monte Carlo and the brokers' offices both are familiar with the men who have "systems" with which to beat the game. There is no record of continued success for such systems, and if careful study were made of their workings it would probably be found that at some point in applying them the system was unconsciously forgotten and judgment substituted.

We know of no sovereign remedy for the lack of that most unusual, priceless quality, shrewd and experienced judgment. Real judgment is able to succeed in the face of facts and figures because it recognizes and understands conditions that defy reduction to fact and figure terms.

W. L. S.

FACTS FOR INVESTORS

The Outlook's Financial Service Department is at the disposal of all Outlook readers at the nominal charge of \$1 per inquiry. It is a fact-finding and reporting information service which aims to help the investor, small or large, solve his own problems. We are serving hundreds. May we serve you?

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“Twenty Questions” on General Information

Answers in this issue of The Outlook

1. Did a majority of either party in Congress—and, if so, which party—oppose the McNary-Haugen Bill?
2. What city is the capital of the Dominion of Canada?
3. In what province of Canada is the capital of the Dominion situated?
4. What is meant by the Middle Kingdom?
5. Where is Somaliland?
6. Who is the Dictator of Spain?
7. What is Roxy's real name?
8. Who was the last President to live west of the Alleghanies in the summer during his term of office?
9. What is the cause of earthquakes?
10. What observatory has the largest telescope?
11. What great composer died a hundred years ago this month?
12. Where is the Sorbonne?
13. When was the present Mexican Constitution adopted?
14. What country is Yugoslavia's next-door neighbor to the south on the Adriatic?
15. What is the salary of a United States Senator?
16. Who is the Chairman of the Radio Commission?
17. In what country is the river Arno?
18. What is the official position of General Lincoln C. Andrews, who has had general charge of the enforcement of prohibition?
19. Of what legislative body was Saklatvala, who was excluded from the United States in 1925, a member?
20. What are spiral nebulae?

(Score yourself 5 on each correct answer.)

Answers to these questions can be found in the pages of this issue of The Outlook as follows:

To 1, on p. 356; to 2, on p. 371; to 3, on p. 371; to 4, on p. 373; to 5, on p. 360; to 6, on p. 366; to 7, on p. 361; to 8, on p. 356; to 9, on p. 361; to 10, on p. 355; to 11, on p. 362; to 12, on p. 360; to 13, on p. 363; to 14, on p. 360; to 15, on p. 356; to 16, on p. 355; to 17, on p. 379; to 18, on p. 358; to 19, on p. 359; to 20, on p. 355.

Free for All

What Did Washington Not Do ?

THIS being Washington's Birthday, I have been reading "The University of Washington and Lee," an article by George Marvin in the February 16 issue of The Outlook. In mentioning the various colleges and universities that bear the name of Washington, the following statement is made: "The college at Lexington is the only one that the first President directly sponsored and knowingly endowed with his name."

There is a little college of ancient traditions and local pride tucked down in the pleasant old town of Chestertown, on the Eastern Shore of Maryland, that would challenge the accuracy of the above statement. To quote from the "National Geographic Magazine" of February, 1927: "The last, founded in 1782, was the first college to bear the name of Washington, who made a substantial contribution to the endowment fund, became one of the board of governors, and in 1789 received the honorary degree of Doctor of Laws from the institution." **H. O. STEPHENS.**
Pittsfield, Massachusetts.

Advice

OUR old-time readers, generally, must have had, as I had, the surprise of their lives when double evidence was presented that The Outlook was disposed to compete with "Life" and "Judge." I refer to the articles "Edward and the Scriptures" (issue of February 23) and "Released for Publication" (issue of March 2).

The former was excruciatingly funny,

without aiming to be such; and the latter just the opposite—even to the leaving of the superior ego (the "I killed Cock Robin") to the imagination.

With so great a record of worth-while expositions of men and things (and who may say that President Butler is ever ridiculous or that the average mother can be depended upon to fully appreciate a son's view-point?), it seems passing strange that these ebullitions got by the censor.

Take the advice of a possibly unwise old man: Don't do it again.

H. B. YOUNG.

Burlington, Iowa.

Contributors' Gallery

THIS is the second article which The Outlook has published by "Culprit 49,068." It may be recalled that at the time we printed his former article we mentioned the fact that he was a prisoner at the Ohio State Penitentiary, occupying the same cell once occupied by another contributor to The Outlook—O. Henry.

THE article on "A Nation of Wongs" comes to us from Germantown Academy, Germantown, Pennsylvania.

GEORGE MARVIN's article on Ottawa is the last of a series of studies of American cities which he made while on a trip about the continent for The Outlook.